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Income Security

Budget function 600 covers income-security programs that provide cash or in-kind benefits to individuals. Some of those benefits (such as food stamps, Supplemental Security Income, Temporary Assistance for Needy Families, and the earned income tax credit) are means-tested, whereas others (such as unemployment compensation and civil service retirement and disability payments) do not depend on a person's income or assets.

Retirement and disability programs represent the largest portion of spending on income security, accounting for about one-third of the mandatory spending in function 600. Unemployment compensation has made up nearly 20 percent of the mandatory spending in the function in recent years, compared with about 10 percent in the mid- to late 1990s. Food and nutrition assistance (including the Food Stamp program) is the next largest component of mandatory spending, making up close to 15 percent in recent years. Of discretionary spending in the income security function, housing assistance accounts for about 70 percent.

The Congressional Budget Office estimates that outlays for function 600 will total $346 billion in 2005, including about $54 billion in discretionary outlays. Since 2000, spending for the function has grown at an average rate of about 7 percent annually. That growth reflects the countercyclical nature of some income-security programs—in particular, unemployment compensation and food stamps—and legislation that enhanced refundable tax credits (which are recorded as outlays).

Federal Spending, Fiscal Years 2000 to 2005 (Billions of dollars)

	2000	2001	2002	2003	2004	Estimate 2005	Average Annual Rate of Growth (Percent) 2000-2004	2004-2005
Budget Authority[a] (Discretionary)	31.6	39.7	42.7	44.3	45.2	45.8	9.4	1.2
Outlays								
Discretionary	41.4	44.0	48.0	51.0	52.3	53.9	6.0	3.1
Mandatory	212.1	225.6	264.5	283.4	280.6	292.1	7.2	4.1
Total	253.6	269.6	312.5	334.4	332.8	346.0	7.0	4.0

a. Budget authority is artificially low in 2000 because $4.2 billion in funding for the housing certificate fund that ordinarily would have been provided in 2000 was appropriated as an advance appropriation for 2001.

600-01—Mandatory

Increase the Federal Insurance Premium on Private Pension Plans

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Receipts							
Budget authority	+110	+90	+210	+190	+160	+760	+1,430
Outlays	+110	+90	+210	+190	+160	+760	+1,430

The Pension Benefit Guaranty Corporation (PBGC) is a federal agency that insures participants in private defined-benefit pension plans against the loss of certain benefits if their plan is terminated without sufficient assets. Private employers are not required to provide a pension for their workers. If they do, however, they must follow rules specified in the Employee Retirement Income Security Act (ERISA) for most major aspects of the plan's operation (including minimum standards for participation, accrual of benefits, vesting, and funding). Employers who sponsor a defined-benefit plan—one that promises specified monthly benefits in retirement rather than one that simply provides contributions to workers' retirement accounts—also must pay an insurance premium to the PBGC.

PBGC's insurance premium for single-employer plans consists of two parts: a fixed annual payment of $19 for each participant (worker or retiree) in the plan; and, for underfunded plans, a variable payment equal to $9 for each $1,000 by which the plan is underfunded. In 2004, revenue from the fixed portion of the premium totaled about $650 million, and revenue from the variable portion totaled about $450 million. About 35 million people were in single-employer plans covered by the PBGC.

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If a plan is terminated with insufficient assets to pay promised benefits, PBGC takes over both the assets and liabilities (up to an annual per-participant limit) of the plan. It uses the assets of the terminated plans along with insurance premiums from ongoing plans to make monthly annuity payments to qualified retirees and their survivors. After building up a surplus during the late 1990s, the PBGC's financial position has deteriorated markedly in the past few years. At the end of 2004, the PBGC reported a deficit of about $23 billion—indicating that its assets were about $23 billion less than the present value of benefits it owed to workers and retirees in terminated underfunded plans and in underfunded plans whose termination PBGC viewed as "probable."

This option would increase the variable portion of PBGC's annual premium from $9 to $15 per $1,000 of underfunding. Doing so would increase federal receipts by $110 million in 2006 and by $760 million over five years. The average variable premium per participant in underfunded plans would rise under this option from $46 to $77 in 2006. The President has proposed in his 2006 budget a number of changes involving the PBGC and private pensions more generally, including raising PBGC's fixed annual premium from $19 to $30 (and indexing it to wage growth), altering funding rules for defined-benefit pension plans, and improving disclosure of plans' funding status.

PBGC's financial operations to date have resulted in its premium income and other assets being insufficient to cover its accumulated claims. On the basis of that experience, some analysts argue that increasing the price of insurance is warranted to more accurately represent the risk posed to the agency by underfunded plans. This option also would reduce PBGC's future financial shortfall without increasing insurance premiums for well-funded plans. Moreover, by raising the cost of maintaining an underfunded plan, this option would provide an added incentive to employers to more fully fund their pensions.

A disadvantage of this option is that the premium increase would not necessarily be well-targeted to plans that eventually will be taken over by PBGC because it would be based only on the amount of underfunding in a plan and not on the probability that the plan will be terminated. In addition, raising the insurance premium for underfunded plans would not directly improve their underlying financial condition. A more direct way of increasing plan funding (and also of reducing future claims against PBGC) would be to tighten rules in ERISA that relate to the required funding of pensions by their sponsors. Finally, for financially weak employers, higher premiums would contribute to financial pressures that could lead to the PBGC's takeover of their plan.

600-02—Mandatory

Modify the Formula Used to Set Federal Pensions

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Outlays	-50	-160	-260	-365	-470	-1,305	-5,170

The government's major retirement plans for civilian employees, the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS), provide initial benefits that are based on average salary during an employee's three consecutive highest-earning years. In 2006, outlays for pension benefits under the two programs are projected to total $57 billion.

This option would use a five-year average instead of a three-year average to compute benefits for workers who retire under FERS and CSRS after September 30, 2005. As a result, initial pensions would be about 3 percent to 4 percent smaller for most new civilian retirees, saving the federal government $50 million in 2006 and a total of $1.3 billion over five years. The average new CSRS retiree would receive $1,400 less in 2006 and $7,300 less over five years than under current law. By comparison, the average new FERS retiree would receive just $450 less in 2006 and $2,300 less over five years, because FERS pays a smaller defined benefit than CSRS does.

One argument for this option is that switching to a five-year average would align federal practices with those in the private sector, which commonly uses five-year averages to calculate a worker's base pension. The change in formula would also encourage some federal employees (who generally receive higher salaries the longer they stay on the job) to work more years in order to boost their pensions. That incentive could help the government retain experienced personnel.

A disadvantage of this option is that cutting pension benefits would reduce the attractiveness of the government's civilian compensation package. Although FERS benefits, which include Social Security and the 401(k)-like Thrift Savings Plan, would remain more generous than the benefits offered by large private firms, the same would not be true for CSRS benefits, which do not include Social Security and the Thrift Savings Plan. In addition, this option would increase the disparity between the two retirement systems because FERS benefits are already more generous than those provided under CSRS.

RELATED OPTIONS: 600-03, 600-04, and Revenue Option 40

RELATED CBO PUBLICATIONS: *Measuring Differences Between Federal and Private Pay*, November 2002; *The President's Proposal to Accrue Retirement Costs for Federal Employees*, June 2002; *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998; and *Comparing Federal Salaries with Those in the Private Sector*, July 1997

600-03—Mandatory

Limit Cost-of-Living Adjustments for Federal Pensions

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Outlays	-210	-530	-870	-1,230	-1,620	-4,460	-19,430

Pensions paid to former federal workers under the Civil Service Retirement System (CSRS) are subject to annual cost-of-living adjustments (COLAs) that provide complete protection against inflation. Pensions paid under the newer Federal Employees Retirement System (FERS) are fully protected only when the rate of inflation is less than 2 percent a year. If inflation is between 2 percent and 3 percent, FERS annuitants receive a COLA of 2 percent. If inflation exceeds 3 percent, their COLA is the rate of inflation minus 1 percentage point. COLAs are paid at the beginning of the calendar year; people who have not been on the retirement rolls for the entire year receive a prorated adjustment.

This option would hold all cost-of-living adjustments for federal retirees below the rate of inflation. If annual COLAs were half a percentage point below the rate of inflation for CSRS annuitants and a full percentage point below the rate of inflation for FERS annuitants (as now occurs in FERS when inflation is higher than 3 percent), mandatory outlays would be $210 million lower in 2006 and $4.5 billion lower over the 2006-2010 period. The two different cuts to COLAs would produce roughly comparable reductions in the growth of total retirement benefits for the two types of annuitants because FERS enrollees are also covered by Social Security. On average, a CSRS retiree would receive $2,100 less over five years than under current law, and a FERS retiree would receive $1,300 less. (As an alternative approach, lawmakers could limit COLAs only for the FERS plan, which is more generous than CSRS when benefits from Social Security and the Thrift Savings Plan, which CSRS retirees do not receive, are factored in.)

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A rationale for limiting COLAs is that federal pension plans offer greater inflation protection than most private pension plans do. In fact, COLAs are becoming scarce in the private sector. According to a 2001 survey, fewer than 15 percent of private-sector plans gave annuitants formal annual COLAs; another 25 percent made cost-of-living adjustments on an ad hoc basis. More than 60 percent of plans had made no adjustments during the previous 10 years. In addition, many analysts believe that the inflation index used to set COLAs overstates increases in the cost of living (see option 650-01). Moreover, even with reduced COLAs, many federal annuitants would still fare better than other retirees because they are covered by the comprehensive Federal Employees Health Benefits program.

Various arguments against limiting COLAs can be made. Cutting any retirement benefit could hurt both retirees and the government's ability to recruit a highly qualified workforce. Further, when workers accept employment with the federal government, they count on the benefits promised. Federal employees may be accepting salaries below private-sector rates for comparable jobs in part because of better retirement provisions (in essence, paying for their more-generous retirement benefits by accepting lower wages during their working years). This option would hurt those retirees—CSRS annuitants—who are most dependent on their pensions and would renege on an understanding that those who stayed with CSRS rather than switching to FERS would retain their full protection against inflation.

RELATED OPTIONS: 600-02, 600-04, 650-01, and Revenue Option 40

RELATED CBO PUBLICATIONS: *Measuring Differences Between Federal and Private Pay*, November 2002; *The President's Proposal to Accrue Retirement Costs for Federal Employees*, June 2002; *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998; and *Comparing Federal Salaries with Those in the Private Sector*, July 1997

600-04—Discretionary

Restructure the Government's Matching Contributions to the Thrift Savings Plan

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-445	-475	-515	-550	-595	-2,580	-6,235
Outlays	-445	-475	-515	-550	-595	-2,580	-6,235

Today, most federal workers covered by the Federal Employees Retirement System (FERS) can direct up to 15 percent of their salary to the Thrift Savings Plan (TSP), which is similar to a 401(k) plan. (That limit will increase in 2006.) Federal agencies match the first 3 percent of workers' voluntary contributions to the TSP dollar for dollar and match the next 2 percent of contributions at 50 cents on the dollar. (Employees can set aside another 10 percent of pay but get no matching contributions.) In addition, federal agencies automatically contribute an amount equal to 1 percent of a FERS employee's salary to the TSP. Thus, although those employees can save up to 15 percent of their earnings in the TSP, they receive the maximum government match by contributing just 5 percent. (Federal workers covered by the Civil Service Retirement System, the older federal plan, can generally contribute 10 percent of their salary to the TSP, but they receive no government match.)

This option would restructure the TSP contribution schedule so that the government made the full 5 percent match only when employees contributed 10 percent of their salary. Specifically, federal agencies would match voluntary contributions ranging from 1 percent to 6 percent of earnings at 50 cents on the dollar (for a maximum match of 3 percent) and contributions ranging from 7 percent to 10 percent at 25 cents per dollar (for a maximum match of another 1 percent). In addition, agencies would continue to automatically contribute an amount equal to 1 percent of employees' earnings. That restructuring would save $445 million in 2006 and $2.6 billion over the 2006-2010 period.

A justification for changing the government's matching schedule is that it would bring federal practices more in line with those of defined-contribution plans in the private sector, which usually provide lower matches and no automatic contributions. For example, according to the Bureau of Labor Statistics, the most prevalent practice among medium-sized and large private firms is to match employees' contributions up to 6 percent of pay at 50 cents on the dollar. This option would also give some federal FERS employees, especially those now contributing 5 percent of their earnings, an incentive to set aside more in the TSP and thus have more savings available when they retire. Furthermore, restructuring matching contributions might reduce the disparity between the government's two major retirement systems. In most cases, the benefits that an employee receives under FERS—which include Social Security and the TSP—are higher and cost the government more than do the benefits that the same employee would receive under the Civil Service Retirement System.

This option would have several drawbacks, however. First, a lower government match on smaller contributions could reduce the incentive of some workers to participate in the TSP or to contribute at their current rates. Second, the government would save money at the expense of the types of employees who are least likely to contribute a higher percentage of their earnings to the TSP—such as young workers and others with relatively low pay. Third, changing the TSP could be considered unfair because one factor that affected many people's decision to accept employment with the government or to switch from the Civil Service Retirement System to FERS was their assumption that TSP benefits would remain the same.

RELATED OPTIONS: 600-02, 600-03, and Revenue Option 40

RELATED CBO PUBLICATIONS: *Measuring Differences Between Federal and Private Pay*, November 2002; *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998; and *Comparing Federal Salaries with Those in the Private Sector*, July 1997

600-05—Mandatory

Reduce Benefits Under the Federal Employees' Compensation Act

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Outlays							
From reducing benefits at retirement	-15	-29	-30	-30	-31	-135	-300
From eliminating augmented benefits	-7	-14	-14	-14	-15	-65	-140

The Federal Employees' Compensation Act (FECA) program provides workers' compensation coverage to federal civilian employees. The program, which is administered by the Department of Labor, offers wage-replacement, medical, and vocational-rehabilitation benefits in the event of work-related injury or occupational disease. Federal employees who are injured on the job receive two-thirds of their lost pay if they have no dependents or "augmented benefits," equal to 75 percent of their lost pay, if they have at least one dependent. Those benefits continue throughout a worker's retirement years, even though FECA benefits substantially exceed a worker's retirement benefits in most instances. Roughly 168,000 FECA claims were filed in 2003; of those, 59,000 federal employees received long-term replacement benefits (averaging about $32,000) for a job-related injury, disease, or death. About three-fourths of those beneficiaries received augmented benefits. More than 40 percent of the beneficiaries were at least 55 years old.

This option would reduce FECA benefits in one of two ways. The first approach would give beneficiaries age 55 or older a separate FECA "annuity" equal to two-thirds of the benefit level they would have received under current law. That change would save $15 million in 2006 and $135 million through 2010. The second approach would eliminate the additional benefits given to injured federal employees with at least one dependent. That change would save $7 million in 2006 and $65 million through 2010. (The President's 2006 budget contains similar proposals.) The two approaches are not mutually exclusive; however, the effects of implementing both of them would be less than the sum of the individual effects.

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A rationale for the first approach is that under the current benefit schedule, FECA provides a windfall for permanently disabled employees who would otherwise be retired, indefinitely paying them benefits that are higher than those of their retirement plans. (By comparison, federal workers who retire under the Civil Service Retirement System at age 55 with 30 years of service receive benefits equal to 56 percent of their salary.) Moreover, permanently disabled employees who are under the Federal Employees Retirement System can cash out the defined-contribution portion of their retirement plans in addition to receiving FECA benefits. The higher benefits may encourage some employees to claim to be disabled in order to raise their retirement income. Giving injured retirement-age employees a separate FECA annuity equal to two-thirds of the current benefit level would better align the incentives to retire or return to work with those faced by noninjured employees and thus reduce the incentive to feign disability.

A drawback of that approach, however, is that it would break a promise of compensation for workplace injuries established by FECA in 1916. Moreover, injured workers who reach retirement age may have higher living expenses than their noninjured counterparts and thus need higher compensation. Further, reducing coverage would be unfair to employees who would have continued working past retirement age. (Fewer than 2 percent of federal civilian workers remain on the job after age 65, however.) Finally, the program's extensive review process helps to minimize false claims.

The rationale for eliminating augmented FECA benefits for employees with dependents is that such benefits are out of line with those of other workers' compensation systems. Only six state systems authorize additional benefits for employees with at least one dependent, and those benefits are much smaller—about $5 to $10 per week in five states and $25 per week in the sixth, compared with 8.33 percent of the worker's previous salary in the case of FECA, or about $80 per week for an employee making $50,000 per year. Moreover, salaries and other employee benefits do not increase for workers with dependents.

An argument against eliminating augmented benefits is that they are necessary to compensate for any additional child care needs that result from an employee's injury.

600-06—Mandatory

End the Trade Adjustment Assistance Program

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-950	-975	-970	-940	-960	-4,795	-9,905
Outlays	-430	-840	-955	-970	-965	-4,160	-9,220

The Trade Adjustment Assistance (TAA) program offers income-replacement benefits, training, and related services to workers who lose a job as a result of import competition or a shift of production to another country. To obtain assistance, affected workers must first petition the Secretary of Labor for certification and then meet other eligibility requirements. Cash benefits are available to certified workers who receive training but only after they have exhausted their unemployment insurance benefits. Legislation enacted in 2002 expanded eligibility for the program and provided displaced workers with a refundable tax credit of 65 percent of their health insurance premiums.

Ending the TAA program by issuing no new certifications in 2006 and thereafter would reduce federal outlays by about $430 million in 2006 and by $4.2 billion through 2010. Affected workers would still be able to apply for benefits under the Workforce Investment Act of 1998 (WIA), which authorizes a broad range of employment and training services for displaced workers regardless of the cause of their job loss.

A rationale for this option is that such a change would ensure that federal programs offered uniform assistance to workers who were permanently displaced as a result of changing economic conditions. Because WIA provides cash benefits only under limited circumstances and does not provide a subsidy for health insurance premiums, workers who lose a job because of foreign competition or as a result of a shift in production to another country now are treated more generously than workers who are displaced for other reasons.

An argument against this option is that eliminating TAA benefits could cause economic hardship for some of the long-term unemployed who otherwise would have received such benefits. Another way of securing more equal treatment for displaced workers, regardless of the reason for the job loss, would be to expand benefits for displaced workers not currently eligible for the TAA program.

600-07—Discretionary

Increase Payments by Tenants in Federally Assisted Housing

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Spending							
Budget authority	-417	-857	-1,319	-1,805	-2,316	-6,714	-19,239
Outlays	-167	-681	-1,134	-1,611	-2,111	-5,704	-18,101

Most low-income tenants who receive federal rental assistance are aided through the Housing Choice Voucher (HCV) program, the low-rent Public Housing program, or project-based assistance programs (which designate privately owned government-subsidized units for low-income tenants). Administered by the Department of Housing and Urban Development (HUD), those programs usually require that a tenant pay 30 percent of his or her monthly gross household income (after certain adjustments) in rent; the federal government subsidizes the difference between that amount and the maximum allowable rent. In 2004, the Congressional Budget Office estimates, the average federal expenditure for all of HUD's rental housing programs combined was roughly $6,900 per assisted household. That amount includes both housing subsidies and fees paid to agencies that administer the programs.

This option would increase tenants' rent contributions over a five-year period from 30 percent of adjusted gross income to 35 percent. Savings in outlays would total $167 million in 2006 and $5.7 billion over five years, including $2.8 billion for the HCV program, $1.4 billion for the Public Housing program, and $1.5 billion for project-based assistance programs.

The effect of this option on tenants could be cushioned by encouraging states to make up some or all of the decreased federal support. States currently contribute no funds to federal rental assistance programs even though such programs generate substantial local benefits, including improved quality of the housing stock and increased general welfare of assisted tenants.

However, some states might not increase their spending to compensate for the reduction in federal assistance. As a result, housing costs could increase for some current recipients of aid. For those with the very lowest income, even a modest increase in rent could be difficult to manage.

RELATED OPTION: 600-08

600-08—Discretionary

Reduce Rent Subsidies for Certain One-Person Households

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-62	-122	-180	-237	-292	-894	-3,146
Outlays	-25	-86	-145	-203	-259	-718	-2,814

Recipients of federal housing assistance typically live either in subsidized-housing projects or in rental units of their own choosing found on the open market. Financial support for the second type of assistance usually comes in the form of vouchers—specifically, the Housing Choice Voucher (HCV) program. Administered by the Department of Housing and Urban Development, the HCV program pays the difference between a tenant's contribution (usually 30 percent of his or her monthly adjusted gross income) and rent (which is determined by local rental levels).

Both the local payment standard and the federal subsidy vary according to the type of unit in which a given tenant lives. Generally, an individual in a one-person household may choose an apartment with up to one bedroom. Recipients in larger households may rent larger units.

This option would link the rent subsidy for new applicants from one-person households to the cost of an efficiency apartment rather than a one-bedroom unit. (The change would also apply to any single person currently receiving assistance who moves to another subsidized unit.) The option would save $25 million in federal outlays next year and $718 million through 2010.

A rationale for this option is that an efficiency unit should provide adequate space for someone living alone. A potential drawback is that renters in some areas might have difficulty finding an efficiency apartment and, under the new rule, might have to spend a higher percentage of their income for a one-bedroom unit.

RELATED OPTION: 600-07

600-09—Mandatory

Eliminate Small Food Stamp Benefits

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Outlays	-90	-95	-95	-100	-100	-480	-1,025

Under the Food Stamp program, applicants must meet eligibility requirements to receive a monthly benefit. In general, among other conditions, household income must be at or below 130 percent of the federal poverty line, and countable assets must be less than $2,000.

Once program eligibility has been determined, the benefit amount is calculated. A household is expected to contribute 30 percent of its net income (gross income minus deductions for certain expenses) toward food expenditures. The Department of Agriculture has calculated the monthly cost of a “Thrifty Food Plan” for households of various sizes. The food stamp benefit equals the amount by which the monthly cost of the Thrifty Food Plan exceeds 30 percent of a given household’s net monthly income. For one- and two-person households, a minimum benefit exists: if the calculated benefit is less than $10, the food stamp benefit is set at $10.

This option would eliminate food stamp benefits for those households with a calculated benefit of less than $10 a month. Savings from the change would total $90 million in 2006 and $480 million over five years.

A rationale for this option is that it would reserve food stamp benefits for those recipients with the greatest calculated need. An argument against this option is that eliminating food stamps for households that currently are eligible for benefits of less than $10 a month might discourage those households from applying for the program if their financial situation worsened, thus lessening the extent to which the program achieved its goal of aiding low-income households.

600-10—Mandatory

Target the Subsidy for Certain Meals in Child Nutrition Programs

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	-125	-750	-800	-855	-620	-3,150	-6,690
Outlays	-105	-660	-790	-845	-655	-3,055	-6,565

The School Lunch Program and the School Breakfast Program provide funds that enable participating schools to offer subsidized meals to students. In general, participating schools offer free meals to students whose household income is at or below 130 percent of the federal poverty line, reduced-price meals to students whose household income is above 130 percent but at or below 185 percent of the federal poverty line, and full-price meals to students whose household income is above 185 percent of the poverty line.

The subsidy rate per meal does not vary with the cost that a given school incurs as a result of providing the lunch or breakfast—it depends solely on the household income of the student receiving the meal. For the 2004-2005 school year, the federal cash subsidies total $2.24 per free lunch and $1.23 per free breakfast served; $1.84 per reduced-price lunch and $0.93 per reduced-price breakfast served; and $0.21 per full-price lunch and $0.23 per full-price breakfast served. (Schools in Alaska and Hawaii and those with large numbers of participating free- and reduced-price-meal students get an additional subsidy.) Although each school sets the prices it charges students for reduced-price and full-price meals, the reduced-price lunch cannot cost more than $0.40 and the reduced-price breakfast cannot cost more than $0.30.

This option would eliminate the breakfast and lunch subsidy for full-price meals for students whose household income is above 350 percent of the poverty line, beginning in July 2006. At the same time, it would increase the subsidy for reduced-price meals (both breakfast and lunch) by $0.20. Those changes would yield net savings of $105 million in 2006 and more than $3 billion over five years.

A rationale for this option is that there is no clear justification for subsidizing meals for students who are not from low-income households. A argument against this option is that if a participating school has been using funds from the full-price subsidy to offset the overall costs of administering its breakfast and lunch programs, it might decide to raise meal prices for students from higher-income households, or it might drop out of the program altogether. The latter outcome would mean that students eligible for free or reduced-price meals would no longer receive them.

600-11—Mandatory

Reduce the Exclusion for Unearned Income Under the Supplemental Security Income Program

						Total	
(Millions of dollars)	2006	2007	2008	2009	2010	2006-2010	2006-2015
Change in Outlays	-110	-135	-150	-155	-155	-705	-1,510

The federal Supplemental Security Income (SSI) program provides monthly cash payments—based on uniform eligibility rules nationwide—to low-income elderly and disabled people. In addition, many states provide supplemental payments. Because SSI is a means-tested program, recipients' non-SSI income can reduce their SSI benefits, subject to certain exclusions. For unearned income (most of which is Social Security benefits), $20 a month is excluded from the benefit calculation; above that amount, SSI benefits are reduced dollar for dollar. To encourage SSI recipients to work, the program allows a larger exclusion for earned income.

This option would reduce the exclusion for unearned income from $20 a month to $15. The reduction would save $110 million in outlays in 2006 and $705 million over five years.

A rationale for this option is that a program designed to ensure a minimum standard of living for its recipients does not need to provide a higher standard for those people who happen to have unearned income. An argument against the option is that reducing the monthly exclusion by $5 would decrease by as much as $60 a year the income of the roughly 2.8 million low-income people (approximately 40 percent of all federal SSI recipients) who otherwise would benefit to a greater extent from the exclusion in 2006.

RELATED OPTION: 600-12

600-12—Mandatory

Create a Sliding Scale for Children's SSI Benefits Based on the Number of Recipients in a Family

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Outlays	0	-65	-145	-155	-160	-525	-1,410

The federal Supplemental Security Income (SSI) program makes cash payments to low-income elderly and disabled people on the basis of uniform, nationwide eligibility rules. In addition, many states provide supplemental payments to program recipients. In 2004, children received approximately $6 billion, or about one-sixth, of total benefits.

Unlike other means-tested benefits, SSI payments for each additional child do not decline as the number of SSI recipients in a family increases. For instance, in 2005, a family with one child who qualifies for SSI benefits can expect to receive up to $579 a month if the family's income (excluding SSI benefits) is under the cap for the maximum benefit. If the family has other eligible children, it can receive another $579 a month for each additional child. (A child's benefit is based on the presence of a severe disability and on the family's income and resources. Neither the type of disability nor participation by other family members in the SSI program is considered.)

This option would create a sliding scale for SSI disability benefits so that a family would get incrementally fewer benefits per child as the number of children in that family who qualified for SSI increased. Recommended by the National Commission on Childhood Disability in 1995, the sliding scale used in this option would keep the maximum benefit for one child at the level currently allowed by law. However, benefits for each additional child in the same family would be correspondingly reduced. If the sliding scale was applied in 2005, the first child in a family qualifying for the maximum benefit would continue to receive $579 a month. But the second child would get $362, and the third would receive $309. Benefits would continue to decrease for additional children in the same family. As with current SSI benefits, the sliding scale would be adjusted each year to reflect changes in the consumer price index.

This option assumes that such a change will not be carried out until 2007 because the administering agency, the Social Security Administration, does not maintain data on multiple SSI recipients in an individual family. Consequently, implementing the sliding scale would require significant effort on the agency's part. The Congressional Budget Office estimates that savings from this option will total $65 million in 2007 and $525 million between 2007 and 2010.

Proponents of a sliding scale argue that the resulting reductions in benefits would reflect economies of scale that generally affect the cost of living for families with more than one child. Moreover, the high medical costs that disabled children often incur, which would not be subject to economies of scale, would continue to be covered because SSI participants are generally eligible for Medicaid.

An argument against this option is that children with disabilities sometimes have unique needs (such as housing modifications and specialized equipment) that may not be covered by Medicaid. With reduced SSI benefits, some families might be unable to meet those needs.

RELATED OPTION: 600-11

600-13—Mandatory

Remove the Ceiling on the Collection of Overpayments from Supplemental Security Income

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Outlays	-70	-80	-85	-90	-100	-425	-920

The federal Supplemental Security Income (SSI) program makes monthly cash payments to low-income elderly and disabled people. The Social Security Administration (SSA), which administers the program, sometimes pays recipients more than it later determines they were entitled to. According to a report issued by the General Accounting Office (now the Government Accountability Office), the complexity of the rules governing the SSI program is a primary reason for the overpayments.[1]

After discovering an overpayment, the SSA can reduce the recipient's subsequent monthly benefit to recover the excess amount. Under current rules, however, the maximum that the SSA can deduct from a recipient's monthly payment is the lesser of two amounts: the recipient's entire monthly SSI benefit or 10 percent of the recipient's total monthly income (minus certain exclusions). Thus, the SSA can deduct no more than 10 percent of the monthly SSI benefit of a recipient with no other income source. Moreover, the Commissioner of Social Security can lower the recovery rate or waive collection of an overpayment altogether if it is determined that doing so would support the purposes of the program.

This option would remove the ceiling on the amount of overpayments that the SSA could recover from monthly SSI payments while retaining the commissioner's discretionary authority to reduce or waive the required amount. The Congressional Budget Office estimates that removing the 10 percent ceiling will increase the amount collected—and thereby reduce net outlays for benefits—by $70 million in 2006 and by $425 million over the 2006-2010 period. (CBO also estimates that removing the ceiling will increase administrative costs by about $20 million to $25 million each year; those costs are subject to appropriations and are not included in the amounts shown in the table.)

An argument for this option is that removing the ceiling would improve the federal government's ability to recover money paid to recipients erroneously. Moreover, retention of the commissioner's discretionary authority would lessen the chances that such action would result in undue hardship for SSI recipients.

An argument against this option is that SSI recipients generally have low income and few, if any, financial assets. For recipients with no other income, even a 10 percent reduction in SSI payments could be difficult to manage. The current ceiling allows affected recipients to pay the amount owed in small increments, thereby limiting the extent to which it would be necessary for them to reduce current consumption.

1. General Accounting Office, *Supplemental Security Income: Progress Made in Detecting and Recovering Overpayments, But Management Attention Should Continue*, GAO-02-849 (September 16, 2002), p. 19.

600-14–Mandatory

Increase Funding for Child Care

(Millions of dollars)	2006	2007	2008	2009	2010	Total 2006-2010	Total 2006-2015
Change in Spending							
Budget authority	+337	+422	+509	+599	+692	+2,560	+7,515
Outlays	+243	+378	+476	+568	+660	+2,325	+7,102

The Child Care and Development Block Grant, which provides money to states to subsidize the child care expenses of low-income families, is funded through a combination of discretionary appropriations and a capped entitlement. Created in 1990, the program was subsequently modified and reauthorized through 2002 as part of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996. Since then, the capped entitlement—which included annual increases through 2002 under the 1996 law—has been held at its 2002 level of $2.7 billion per year and has not been adjusted for inflation.

This option would increase the 2006 authorization for the entitlement portion of the block grant to adjust for inflation since 2002 and would index that amount thereafter. Doing so would boost federal spending by $243 million in 2006 and by $2.3 billion through 2010.

This option would provide additional funding to restore low-income mothers' access to subsidized child care to the level awardable in 2002 and maintain that level. Access to subsidized child care, in turn, would increase work incentives for some low-income mothers, making it easier for them not only to enter the job market but also to stay employed. Increased participation in paid child care also might improve children's well-being, potentially decreasing behavioral problems while increasing school readiness and social skills.

An argument against this option is that many low-income mothers have access to informal, or unpaid, care (from a relative, for example). In those cases, increases in child care subsidies might simply result in those mothers' shifting from unpaid to paid care. Furthermore, there is little evidence on the effects on children of recurring informal (as opposed to paid) care.